

ASSUMPTIONS AND DISCLAIMERS FOR ESTIMATES OF CALIFORNIA SMALL GROUP PPO MEDICAL COSTS RELATIVE TO MEDICARE

REQUESTED DISCLOSURES

As part of its Small Group rate filing, the California Department of Insurance has requested that Aetna Life Insurance Company (Aetna) provide cost as a percentage of Medicare by aggregate benefit category and as a percentage of average wholesale cost (AWP) for prescription drugs.

GENERAL METHODOLOGY

We are not aware of any prescribed industry standard methodologies for determining health plan costs relative to Medicare allowable. Aetna has not presented its data in this fashion historically and we have no standard process for collecting or reporting this data. Thus future reports, if any, may use different assumptions and approaches should this reporting become more standardized. This information is based on specific assumptions made in this study and the use of other assumptions, methods, or factors could cause disclosures of this type to differ materially.

HOSPITAL COMPARISON

For hospital based claims, we estimated cost as a percentage of Medicare for forty (40) hospitals that comprise the top volume of Small Group member claims for Inpatient and Outpatient hospital services. The 40 hospitals represent two-thirds of hospital dollars for these members. Medicare estimates were derived by Aetna's internal pricing tool for processed claims using Aetna system codes and Small Group Commercial benefits. Medicare codes needed for the estimates are derived by running Aetna's claims through a third-party purchased software system. This software system performed grouping logic for CMS rules effective in force for the claims experience period. After completing derived estimates for all included claims, Aetna performed an internal review of the results and made adjustments as described under 'Time Period and Scope of Data' for a more appropriate representation. Aetna allowed costs were expressed relative to this derived Medicare estimate.

PHYSICIANS AND ANCILLARY PROVIDERS COMPARISON

For physician and ancillary claims we estimated Small Group member claims cost as a percentage of Medicare for the top volume physician and ancillary providers participating in Aetna's network. Our estimate compares allowed network costs to estimated Medicare reimbursement for procedures with a Medicare rate. Estimated Medicare reimbursement was derived by mapping procedure codes paid in Aetna's claim system to the Medicare rate by procedure and adjusted for applicable location.

PHARMACY COMPARISON

For pharmacy claims obtained at retail and specialty pharmacies, we provided Aetna's claims cost as a percentage of Average Wholesale Price (AWP) for Small Group member pharmacy claims by determining a weighted average for adjudicated claims. Most brand drug prices are based on AWP. Generic drug prices are determined most commonly by Maximum Allowable Cost (MAC) price which is translated into the effective equivalent discount off of AWP.

TIME PERIOD AND SCOPE OF DATA

For hospital services we compared Aetna's processed allowed amounts for Small Group member claims with dates of service from January 1, 2010 through September 30, 2010 that had been paid through March 31, 2011, to derived Medicare allowable amounts. For physician and ancillary services, we compared processed allowed amounts for Small Group claims with dates of service from July 1, 2010 to December 31, 2010 that had been paid by February 28, 2011. For pharmacy claims we compared Small Group claims with dates of service from January 1, 2010 to December 31, 2010 that have been paid by March 31, 2011.

This data and analysis approach is unique to the claims of Aetna's California Small Group book of business and is not necessarily relevant for other members or products. The data only considers services received from network providers. Some claims and hospitals were excluded because of factors that make cost comparison to Medicare allowable amounts difficult. For example, we removed Aetna claim results from children's hospitals and hospitals that Medicare pays on a methodology other than the method available in our third-party software. Other examples include removal of claims where our internal pricing derived no Medicare allowable amount but that likely would be resubmitted by the provider with appropriate claim coding in order to qualify for Medicare payment. However, other claim lines, where our third-party software derived \$0 Medicare allowed, but where Aetna contracts and benefits allow payment, were retained. Aetna's payment levels are also affected by the specific stop loss parameters negotiated with network providers.

Data and Methodology for Company Cost as Percentage of Medicare

Hospital	Aetna (Aet)
Medicare data	IP: MedPar 1/10 - 9/10 OP: OPPS 1/10 - 9/10
Company data	Aet top 40 hospitals (2/3 claim volume); 1/10 - 9/10
Scope of company data	Ins PPO Individual only; in-network only
Methodology	Aet claims data assigned to Med codes
Exclusions	Children's hospitals; some speciality hospitals reimbursed by Medicare using non-standard methods; claims that Medicare would have denied as submitted but likely would have been allowed upon resubmission
Other Notes	Aet benefit allowed when \$0 Med allowed
Physician / Ancillary	Aetna (Aet)
Medicare data	RBRVS from 4th Quarter 2010 CMS
Company data	Claims from Aet top-volume phys/ancillary; 7/10 - 12/10
Scope of company data	Ins PPO Individual only; in-network only
Methodology	Used local GPCI to adjust RBRVS
Exclusions	Non-Aetna accessed contracts (e.g. rental networks); claims that Medicare would have denied as submitted but likely would have been allowed upon resubmission
Other Notes	Aet benefit allowed when \$0 Med allowed
Pharmacy	Aetna (Aet)
Medicare data	AWP (brand), MAC (generic)
Company data	Aet 1/10 - 12/10
Scope of company data	Ins PPO Individual only; in-network only
Methodology	MAC data converted to AWP

Aetna
California Small Group (SG) - estimated % of Medicare supporting
Section 3 of Plain Language Form:

		<u>Total CA % Medicare</u>	<u>Northern CA % Medicare</u>	<u>Southern CA % Medicare</u>
Hospital Inpatient				
	Cost as Percentage of Medicare:	247%	292%	227%
Hospital Outpatient (including ER)				
	Cost as Percentage of Medicare:	301%	420%	270%
Physician/other professional services				
	Cost as Percentage of Medicare:	109%	124%	102%
Prescription Drug				
	Cost as Percentage of Average Wholesale Price:	87% Brand, 37% Generic; 65% overall	87% Brand, 39% Generic; 65% overall	87% Brand, 36% Generic; 65% overall
Laboratory (other than inpatient)				
	Cost as Percentage of Medicare:	185%	254%	156%
Radiology (other than inpatient)				
	Cost as Percentage of Medicare:	203%	249%	183%

Notes/data considerations

Includes only providers Participating in Aetna's network.

Basis of comparison is Individual member claims for the following periods:

Hospitals: Top 40 hospitals for claims with Dates of service 01/01/2010-09/30/2010

Professional/Ancillary Providers: Claims with Dates of service 7/1/2010-12/31/2010

Pharmacy: Retail and specialty pharmacy claims with Dates of service 1/1/2010-12/31/2010